

1998

Sales of Business Property

(Also, involuntary conversions and recapture amounts under IRC Sections 179 and 280F and R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8.)

D-1

Complete and attach this schedule to your tax return only if your California gains or losses are different from your federal gains or losses.

Name(s) as shown on return

Social security or California corp. number

FEIN

Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty and Theft — Property Held More Than 1 Year

Note: Use federal Form 4684, Casualties and Thefts, to report involuntary conversions from casualty and theft.

1 Enter here the gross proceeds from the sale or exchange of real estate reported to you for 1998 on federal Form(s) 1099-S, Proceeds From Real Estate Transactions, (or a substitute statement) that you will be including on line 2 or line 10 (column d), or on line 23							1	
2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) LOSS ((f) minus the sum of (d) and (e))	(h) GAIN ((d) plus (e) minus (f))
3	Gain, if any, from federal Form 4684, Section B, Part II, line 39						3	
4	IRC Section 1231 gain from installment sales from form FTB 3805E, line 26 or line 37						4	
5	Gain, if any, from Part III, line 35, from other than casualty and theft						5	
6	Add line 2 through line 5 in column (g) and column (h)						6	()
7	Combine column (g) and column (h) of line 6. Enter gain or (loss) here and on the appropriate line as follows.						7	
Partnerships or Limited Liability Companies: Enter the gain or (loss) on Schedule K (565 or 568), line 6. Skip lines 8, 9, 11 and 12 below. S corporations: Report the gain or (loss) following the instructions for Schedule K (100S), line 5 and line 6. If line 7 is a gain, continue to line 8. If line 7 is zero or a loss, enter the amount on line 11 below and skip line 8 and line 9. All others: If line 7 is zero or a loss, enter the amount on line 11 below and skip line 8 and line 9. If line 7 is a gain and you did not have any prior year IRC Section 1231 losses, or they were recaptured in an earlier year, enter the gain as follows: Form 540 and Form 540NR filers , enter the gain on Schedule D, line 1, and skip lines 8, 9 and 12 below; Form 100 filers , enter the gain on Schedule D, Part II, line 6, and skip lines 8, 9 and 12 below.								
8	Nonrecaptured net IRC Section 1231 losses from prior years. Enter as a positive number. See instructions.						8	
9	Subtract line 8 from line 7. If zero or less, enter -0-						9	
S Corporations: If line 9 is greater than zero, enter this amount on Schedule D (100S), Section A, Part III, line 7 or Schedule D (100S), Section B, Part II, line 5, and enter the amount, if any, from line 8 on line 12 below. If line 9 is zero, enter the amount from line 7 on line 12 below. All others: If line 9 is greater than zero, enter the amount from line 8 on line 12 below, and enter the amount from line 9 as follows: Form 540 and Form 540NR filers , enter as a capital gain on Schedule D, line 1; Form 100 filers , enter the gain on Schedule D, Part II, line 6. If line 9 is zero, enter the amount from line 7 on line 12 below. See instructions.								

Part II Section A — Ordinary Gains and Losses

10 Ordinary gains and losses not included on line 11 through line 16 (include property held 1 year or less):

11	Loss, if any, from line 7						11	
12	Gain, if any, from line 7, or amount from line 8, if applicable. See instructions						12	
13	Gain, if any, from Part III, line 34						13	
14	Net gain or (loss) from federal Form 4684, Section B, Part II, line 31 and line 38a (completed using California amounts)						14	
15	Ordinary gain from installment sales from form FTB 3805E, line 25 or line 36 (applies only to sales before 1/1/85)						15	
16	Recapture of IRC Section 179 and R&TC Sections 17266, 17267.2, 17267.6 and 17268 deductions for partners, members and S corporation shareholders from property dispositions by partnerships, limited liability companies and S corporations. See instructions						16	
17	Add line 10 through line 16 in column (g) and column (h)						17	()
18	Combine column (g) and column (h) of line 17. Enter gain or (loss) here and on the appropriate line as follows:						18	
a For all except individual returns, see instructions.								
b For individual returns:								
(1) If the loss on line 11 includes a loss from federal Form 4684, Section B, Part II, column (b)(ii), enter that part of the loss here. See instructions.						18b(1)		
(2) Redetermine the gain or (loss) on line 18, excluding the loss, if any, on line 18b(1). Enter here and on line 20.						18b(2)		

Part II Section B — Adjusting California Ordinary Gain or Loss For individual returns only.

19	Enter ordinary federal gains and losses from federal Form 1040, line 14	19	
20	Enter ordinary California gains and losses from line 18b(2)	20	
21	Ordinary gain or loss adjustment: Compare line 19 and 20. See instructions.		
a	If line 19 is more than line 20, enter the difference here and on Schedule CA (540 or 540NR), line 14, column B	21a	
b	If line 20 is more than line 19, enter the difference here and on Schedule CA (540 or 540NR), line 14, column C	21b	

Part III Gain From Disposition of Property Under IRC Sections 1245, 1250, 1252, 1254 and 1255

22	Description of IRC Sections 1245, 1250, 1252, 1254 and 1255 property:	Date acquired (mo., day, yr.)	Date sold (mo., day, yr.)
A			
B			
C			
D			
	Relate lines 22A through 22D to these columns ▶ ▶ ▶	Property A	Property B
23	Gross sales price	23	
24	Cost or other basis plus expense of sale	24	
25	Depreciation (or depletion) allowed or allowable	25	
26	Adjusted basis. Subtract line 25 from line 24	26	
27	Total gain. Subtract line 26 from line 23	27	
28	If IRC Section 1245 property:		
a	Depreciation allowed or allowable	28a	
b	Enter the smaller of line 27 or line 28a	28b	
29	If IRC Section 1250 property: If straight-line depreciation was used, enter -0- on line 29g, except for a corporation subject to IRC Sec. 291:		
a	Additional depreciation after 12/31/76. See instructions.	29a	
b	Applicable percentage multiplied by the smaller of line 27 or line 29a. See instructions	29b	
c	Subtract line 29a from line 27. If line 27 is not more than line 29a, skip line 29d and line 29e	29c	
d	Additional depreciation after 12/31/70 and before 1/1/77. See instructions	29d	
e	Enter the smaller of line 29c or line 29d	29e	
f	IRC Section 291 amount (for corporations only). See instructions	29f	
g	Add line 29b, line 29e and line 29f	29g	
30	If IRC Section 1252 property: Skip this section if you did not dispose of farm land or if this form is being completed for a partnership.		
a	Soil, water and land clearing expenses.	30a	
b	Applicable percentage multiplied by line 30a. See instructions	30b	
c	Enter the smaller of line 27 or line 30b	30c	
31	If IRC Section 1254 property:		
a	Intangible drilling and development costs deducted after 12/31/76	31a	
b	Enter the smaller of line 27 or line 31a	31b	
32	If IRC Section 1255 property:		
a	Applicable percentage of payments excluded from income under IRC Section 126	32a	
b	Enter the smaller of line 27 or line 32a	32b	

Summary of Part III Gains. Complete property column A through column D for line 23 through line 32b before going to line 33.

33	Total gains for all properties. Add column A through column D of line 27	33	
34	Add column A through column D of lines 28b, 29g, 30c, 31b and 32b. Enter here and in Part II, line 13	34	
35	Subtract line 34 from line 33. Enter the portion from other than casualty and theft here and on Part I, line 5. Enter the portion from casualty and theft on federal Form 4684, Section B, line 33	35	

Part IV Recapture Amounts Under IRC Sections 179 and 280F When Business Use Drops to 50% or Less, or Under R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8 for Property Which Ceases to be Qualified Property

		(a) Expense Deductions	(b) Recovery Deductions
36	Expense deductions or recovery deductions. See instructions.	36	
37	Depreciation or recovery deductions. See instructions	37	
38	Recapture amount. Subtract line 37 from line 36. See instructions	38	

Instructions for Schedule D-1

Sales of Business Property

(Also, involuntary conversions and recapture amounts under IRC Sections 179 and 280F and R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8). References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1998**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, California tax law conforms to the Internal Revenue Code (IRC) as of January 1, 1998. However, there are continuing differences between California and federal tax law. California has not conformed to the changes made to the IRC by the federal Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (Public Law 105-206) and the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277).

A Purpose

Complete this form **only** if your California gains or losses from the sale or exchange of assets used in a trade or business are different from your federal gains or losses. For common examples of items to report on this schedule, see the instructions for federal Form 4797, Sales of Business Property.

Use this form to report:

1. The sale or exchange of:
 - Trade or business property;
 - Depreciable and amortizable property;
 - Oil, gas and geothermal property; and
 - IRC Section 126 property.
2. The involuntary conversion (other than casualty or theft) of trade or business property and capital assets held in connection with a trade or business or a transaction entered into for profit.
3. The disposition of other noncapital assets.
4. The recapture of IRC Section 179 and R&TC Sections 17266, 17267.2, 17267.6 and 17268 deductions for partners, members and shareholders from property distributions by partnerships, limited liability companies (LLCs) and S corporations, respectively.
5. The computation of recapture amounts under IRC Sections 179 and 280F when the business use of IRC Section 179 or 280F property drops to 50% or less and for property that ceases to be "qualified property" under R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8.

B Special Rules

Casualties and Thefts. Use federal Form 4684, Casualties and Thefts, with California amounts to figure California gain (loss) from casualties and thefts.

Exchange of "Like-Kind" Property. To report a like-kind exchange, complete and attach federal Form 8824, Like-Kind Exchanges, using California amounts.

Report the exchange of like-kind property, even if no gain or loss is recognized. Write "Like-Kind Exchange from Form 8824" for the description of the property, and enter the gain or loss, if any, from Form 8824 (using California amounts) on line 2 or line 10, whichever applies. If an exchange was made with a related party, write "Related Party Like-Kind Exchange" in the top margin of Schedule D-1.

Installment Sales. If you sold property at a gain and you will receive a payment in a tax year after the year of sale, you must report the sale on the installment method unless you elect not to do so.

Use form FTB 3805E, Installment Sale Income, to report the sale on the installment method. Also

use form FTB 3805E to report any payment received in 1998 from a previous installment sale. Federal and state law concerning installment sales are generally the same. Get federal Form 6252, Installment Sale Income, for additional information on how to calculate your installment sale.

If you elect not to use the installment method for California, report the full amount of the gain on a timely filed return (including extensions).

Passive Loss Limitations. If you have an overall loss from passive activities and you report a loss on an asset used in a passive activity, use form FTB 3801, Passive Activity Loss Limitations, or form FTB 3802, Corporate Passive Activity Loss and Credit Limitations, to see how much of the loss is allowed before entering it on Schedule D-1. Gains from assets used in a passive activity should be reported on Schedule D-1 but should also be reported on form FTB 3801 or form FTB 3802 to offset losses, if any, from other passive activities.

Unused passive activity credits are not allowable when you dispose of part of your interest in an activity. If you dispose of your entire interest in an activity, get the instructions for federal Form 4797 for more information.

IRC Section 197(f)(9)(B)(ii) election. If you elected to recognize gain on the disposition of a Section 197 intangible and to pay the tax on the gain at the highest tax rate, report the additional tax on Form 540, line 36 (or the appropriate line of other income tax returns). Write "IRC Section 197" and the amount of the 197 tax on the dotted line to the left of the amount.

For information about at-risk rules and the exclusion of gain on the sale of a home used for business, get the instructions for federal Form 4797.

Specific Instructions

Part I

Use Part I to report sales or exchanges of trade or business property and certain involuntary conversions, such as condemnations of trade or business property and of capital assets held more than one year. If any of the recognized losses were from involuntary conversions arising from fire, storm, shipwreck or other casualty or from theft, and they exceed the recognized gains from the conversions, do not include them when figuring your nonrecapture net IRC Section 1231 losses. Part III may have to be completed before you complete Part I if depreciable and certain amortizable property, farm property, or oil or gas property was disposed of at a gain. For examples of IRC Section 1231 transactions, see the instructions for federal Form 4797.

Line 2, column (f) – Other basis means a basis other than cost. There are times when you cannot use the cost of the property as the basis. For example, in situations involving like-kind exchanges, the basis generally will be the basis of the property given up in the exchange. Under other circumstances, you may be required to use the fair market value of your property. However, you may have been required to make certain reductions to the basis for California purposes. For example, if you took the business expense deduction for enterprise zones (including former program areas), the Los Angeles Revitalization

Zone or a local agency military base recovery area, you may be required to make a basis adjustment. For more information about the differences in California and federal basis, get FTB Pub. 1001, Supplemental Guidelines to California Adjustments, and review the depreciation, amortization and property expensing section.

Line 8 – Part or all of your IRC Section 1231 gains on line 7 may be taxed as ordinary income instead of receiving capital gain treatment. These net IRC Section 1231 gains are treated as ordinary income to the extent of the "nonrecaptured IRC Section 1231 losses." The nonrecaptured losses are net IRC Section 1231 losses deducted during the five preceding tax years that have not yet been applied against any net IRC Section 1231 gain for determining how much gain is ordinary income under these rules. Treat the amount of loss as a positive number.

Figuring the Prior Year Losses.

You had a net IRC Section 1231 loss if your IRC Section 1231 losses exceeded your IRC Section 1231 gains. Gains are included only to the extent taken into account in figuring gross income. Losses are included only to the extent taken into account in figuring taxable income, except that the limitation on capital losses does not apply. See IRC Sections 1231(c)(5) and 1231(a)(4).

Line 9 – If line 9 is zero, enter the amount from line 7 on line 12. All of your IRC Section 1231 gain is treated as ordinary income. For record-keeping purposes, the amount on line 7 is also the amount of net IRC Section 1231 loss recaptured in 1998.

Part II

If a transaction is not reportable in Part I or Part III and the property is not a capital asset reportable on Schedule D, report the transaction in Part II.

Line 10 – Report other ordinary gains and losses, including property held one year or less, on this line.

Individuals also report ordinary losses from the sale or exchange (including worthlessness) of IRC Section 1244 (small business) stock on this line.

Line 12 – If line 9 is zero, enter the amount from line 7. If line 9 is more than zero, enter the amount from line 8.

Line 15 – Enter any ordinary gain from installment sales from form FTB 3805E, Installment Sale Income, line 25 or line 36. This line applies only to sales of IRC Sections 1252, 1254 and 1255 property and IRC Sections 1245 and 1250 property if you are still reporting ordinary gain from sales before 6/7/84.

Line 16 – Enter any recapture of IRC Section 179 or R&TC Sections 17266, 17267.2, 17267.6 and 17268 expense included on Schedule K-1 (565 or 568), line 22, or on Schedule K-1 (100S), line 23, but only if it is due to a disposition. Include it only to the extent that you took a deduction for it in an earlier year. See the instructions for Part IV if you have IRC Section 179 recapture when the business use percentage of the property drops to 50% or less, or if you have R&TC Section 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 or 24356.8 recapture when the property ceases to be qualified property.

Line 18 – Enter the difference between ordinary federal gains or (losses) from line 18 on your return as follows:

Corporations: Form 100, line 7, other additions; or line 15, other deductions.

Exempt Organizations: Form 109, Part I, line 4b, net gain (loss).

S corporations: Form 100S, line 7, other additions; or line 13, other deductions. Also, see instructions for Schedule K (100S), line 5 and line 6.

Built-In Gains. For California purposes, when a C corporation elects to be an S corporation, certain items recognized in S corporation years are subject to the C corporation tax rate instead of the S corporation tax rate.

Built-in gains are reported on Schedule D (100S), S Corporation Capital Gains and Losses and Built-In Gains. Get the Form 100S Booklet for additional information.

Partnerships and Limited Liability Companies: See instructions for Schedule K (565 or 568), line 6 and line 7, and Schedule K-1 (565 or 568), line 6 and line 7.

Line 18b(1) – If the amount of your casualty and theft loss is different for California and federal purposes, enter the difference on California Schedule CA (540 or 540NR), California Adjustments, line 38.

Line 21 – Compare your federal amount entered on line 19 with your California amount entered on line 20. If the amount on line 19 is larger than the amount on line 20, enter the difference on line 21(a) and on Schedule CA (540 or 540NR), line 14, column B. If the amount on line 20 is larger than the amount on line 19, enter the difference on line 21(b) and on Schedule CA (540 or 540NR), line 14, column C.

Part III

Generally, do not complete Part III for property held one year or less; use Part II instead.

Part III is used to compute recapture of depreciation and certain other items that must be reported as ordinary income upon the disposition of property. Complete line 22 through line 27 to determine the gain on the disposition of the property. If you have more than four transactions to report, use additional forms.

For examples of IRC Sections 1245, 1250, 1252, 1254 and 1255 property, see instructions for federal Form 4797.

Line 25 – Line 25 should reflect all adjustments due to deductions (whether for the same or other property) allowed or allowable to you or any other person for depreciation or amortization. If you are not a partnership, LLC or an S corporation, figure the amount to enter on line 25 as follows:

- **Add** depreciation or depletion allowed or allowable, amortization or ACRS deductions if it is recovery property.
- **Add** the IRC Section 179 expense and R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8 expenses deducted.
- **Subtract** any IRC Section 179 and 280F recapture amount included in gross income in a prior taxable year because the business use of the property dropped to 50% or less. Also subtract any R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8 recapture amount included in gross income in a prior taxable or income year because the property ceased to be qualified property.

Note: Use the amount claimed on your California return under R&TC Section 17201 when adding or subtracting IRC Section 179 expense.

You may have to include depreciation allowed or allowable on another asset (and recompute the basis amount for line 24) if you use its adjusted basis in determining the adjusted basis of the property described on line 22. An example is property acquired by a trade-in. (See Section 1.1245-2(a)(4) of the federal regulations.)

Partnerships and LLCs should enter the depreciation or depletion allowed or allowable or amortization on line 25. Enter any IRC Section 179 and R&TC Sections 17266, 17267.2, 17267.6 and 17268 expenses on Schedule K-1 (565 or 568), line 22.

S corporations should enter the depreciation or depletion allowed or allowable, amortization, ACRS or MACRS deductions on line 25. Enter any IRC Section 179 and R&TC Sections 17267.2, 17267.6 and 17268 expenses on Schedule K-1 (100S), line 23.

IRC Section 1245 Property

California law generally is the same as federal law except for amortization of railroad grading and tunnel bores as provided for under IRC Section 185 (repealed) of the IRC.

See federal Form 4797 for examples of Section 1245 property.

IRC Section 1250 Property

California law generally is the same as federal law except for certain modifications to IRC Section 1250(b). See R&TC Section 18171.

Line 29a – Enter the additional depreciation for the period after 12/31/76. For IRC Section 1250 property held more than one year, additional depreciation is the excess of actual depreciation over depreciation figured using the straight-line method. For IRC Section 1250 property held one year or less, all depreciation is additional depreciation.

Line 29b – Use 100% as the percentage for this line unless you have property described in IRC Section 1250(a)(1)(B).

Line 29d – Enter the additional depreciation after 12/31/70 and before 1/1/77. If the straight-line depreciation is more than the additional depreciation after 12/31/70 and before 1/1/77, reduce line 29a by the amount that the straight-line depreciation exceeds additional depreciation, but not below zero.

Line 29f – Refer to the instructions for federal Form 4797, line 26f. California law generally follows IRC Section 291 except Section 291(a)(3) and 291(b)(1). Enter the ordinary income amount computed according to the federal instructions using California figures.

IRC Section 1252 Property

For partnerships, skip line 30a through line 30c. Partners should enter on the applicable lines of Part III amounts subject to IRC Section 1252 according to instructions from the partnership.

You may have ordinary income on the disposition of certain farm land held more than one year but less than 10 years.

Gain from disposition of certain farmland is subject to ordinary income rules under IRC Section 1252 before being considered under Section 1231 (Part I).

Line 30b – Enter 100% of line 30a on line 30b if your property was held for 10 years or longer. If your property was held for less than 10 years, use the same percentage required by federal.

Part IV

Complete column (a) of line 36 through line 38 of Part IV to figure the amount to be recaptured if:

- You took a deduction under IRC Section 179 for property placed in service on or after 1/1/87 (other than listed property, as defined in IRC Section 280F (d)(4)); and
- The property was not used predominantly in your trade or business at any time; or
- You took a deduction under R&TC Section 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 or 24356.8; and
- That property ceased to be qualified property before the close of the second taxable year after it was placed in service.

IRC Section 280F Property. If you have listed property that you placed in service in a prior year and the business use dropped to 50% or less this year, figure the amount to be recaptured. Complete column (b), line 36 through line 38, of Part IV.

Note: If you have more than one property subject to the recapture rules, use separate statements to figure the recapture amounts for each property and attach the statements to your tax return.

Line 36, Column (a) – Enter the IRC Section 179 expense claimed on your California return under R&TC Section 17201, and R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8 expenses that were deducted when the property was placed in service.

Column (b) – Enter the recovery deductions allowable on the property in prior tax years. Any deduction allowable under IRC Section 179 on that property is treated as if that deduction was a recovery deduction under IRC Section 168.

Line 37, Column (a) – Enter the depreciation allowable on the IRC Section 179 amount from the time it was placed in service (on or after 1/1/87) or, under R&TC Sections 17266, 17267.2, 17267.6, 17268, 24356.4, 24356.5, 24356.7 and 24356.8, from the time the property was placed in service until the current year.

Column (b) – Enter the recovery deductions that would have been allowed if the property had not been predominantly used in a qualified business. Figure the deductions from the year it was placed in service until the current year.

Line 38 – If the recapture amount on your federal Form 4797, Part IV, line 35, is different from the recapture amount on Schedule D-1, line 38, an adjustment is required on the tax return as follows:

Individuals: Schedule CA (540 or 540NR) as either a subtraction in column B or an addition in column C on the line for reporting the type of business income that resulted in the difference between the state and federal recapture amounts.

Corporations: Form 100, line 7, other additions; or line 15, other deductions for the difference between state and federal recapture amounts.

S corporations: Form 100S, line 7, other additions; or line 13, other deductions for the difference between state and federal recapture amounts. Also, Schedule K (100S) and Schedule K-1 (100S), line 6 or line 10.

Partnerships or Limited Liability Companies: Schedule K (565 or 568) and Schedule K-1 (565 or 568) line 7 or line 11.